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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 000139

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FOR NEA/IPA AND SEMEP

E.O. 12958: DECL: 01/22/2020

TAGS: [EAID](#) [EFIN](#) [PREL](#) [KPAL](#) [IS](#)

SUBJECT: ENGAGING HAPOALIM, GOI ON CORRESPONDENT BANKING

REF: A. TEL AVIV 2756

[1B.](#) TEL AVIV 1471

Classified By: DCM Luis G. Moreno; reasons 1.4 b/d

[11.](#) (U) This is an action cable (see para 7).

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Hapoalim reiterates concerns to OQR
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[12.](#) (SBU) Firas Raad, Development Advisor in the Office of the Quartet Representative (OQR), briefed Econoff on recent discussions with senior management at Bank Hapoalim on re-establishing correspondent cash services with the Bank of Palestine (BOP). Hapoalim Senior VPs reiterated concerns about providing correspondent cash services due to the AML/CFT standards of Palestinians banks and the resulting risks from litigation (such as from another Arab Bank-like case in the U.S.) as well as the perceived public relations costs Hapoalim would have to pay with its Israeli customers from business ties and cooperation with Palestinians. Hapoalim's Board of Directors has requested that the Bank of Israel (BOI) and Government of Israel provide much more explicit policy guidance in support of the resumption of commercial correspondent relations, to no avail. (Note: Raad was not told specifically what Hapoalim requested of the BOI, but Raad suggested that it was likely some sort of indemnification or comfort letter, tracking with what Hapoalim has previously told the Embassy (ref A). End Note).

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OQR, BOP next steps
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[13.](#) (C) Raad also said that Hashem Shawa, General Manager of the Bank of Palestine, is planning to meet with Yair Seroussi, Chairman of the Board at Bank Hapoalim, on February 2nd or 3rd to discuss these issues further. Raad believes that BOP has built a good case for reestablishing full relations with Hapoalim--including possible financial incentives due to projected growth. Raad felt that this meeting could be an inflection point which will determine the timeline and direction of Hapoalim's decisions on its relationship with BOP.

[14.](#) (C) OQR is considering its own further outreach on several fronts. Raad will meet the week of January 25 with David Zaken, Assistant Supervisor of Banks at BOI, to follow up on his conversation with Hapoalim (Emboffs have been invited by Raad to participate in this meeting). OQR is still pondering whether a letter from Tony Blair to Hapoalim, stressing the importance of the resumption of correspondent relations to Palestinian institution building and the Middle East Peace Process, could be useful. Raad asked if the USG would support a similar letter from Special Envoy Mitchell, or a

joint Mitchell/Blair letter. Emboff noted that the USG would be very reluctant to provide anything in writing that could be used to argue for indemnification in the future.

Following advice from Silvan Shalom's office, Raad also plans to reach out to HSBC and other international banks operating in Israel to determine whether they could provide correspondent services to Palestinian banks. (Note: Embassy has previously engaged with other international banks on this issue. All voiced concerns similar to Hapoalim's, along with noting that they did not provide many of the services here in Israel that the Palestinian banks would need (see ref B). End Note).

Future USG engagement: Embassy comment and guidance request

¶15. (C) From Raad's read-out and previous Embassy conversations, it appears that there are several perceived risks which private Israeli banks will need to address internally before deciding to resume correspondent cash relations with Palestinian banks. These include public relations concerns, litigation risks (both domestically and internationally), assessments of Palestinian AML/CFT standards and implementation, and the overall political environment. We believe that any USG or international engagement on this issue will be most productive if it seeks to address one or more of these concerns, or postpones a decision by the private Israeli banks until these concerns have been addressed via other means. Hapoalim's threat to sever all relations with BOP could be a bluff intended to force the indemnification issue, but if the above concerns

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remain unaddressed, Hapoalim will, at best, maintain the status quo in its relationships with Palestinian banks.

¶16. (C) While the Bank of Israel supports re-establishing correspondent relations, it is very unlikely to indemnify private Israeli banks, as Hapoalim has requested, leaving it with few tools to encourage Hapoalim, Discount, and other banks to restore relations with Palestinian counterparts. Embassy will continue to encourage broader GOI support for this initiative (including a demonstration of this support to the Israeli private sector in novel ways other than an indemnification letter). We will also continue to coordinate with OQR to pursue other possible solutions, including encouragement of international and/or other smaller Israeli banks to take the lead as the Israeli partner in providing correspondent services. However, the current political climate does not bode well for positive overtures from the GOI to the PA. In fact, several of our GOI interlocutors say they are actively searching for sticks to get the PA to the negotiating table, as they feel the carrot approach has not been successful.

¶17. (C) Action Requested: Post would appreciate guidance regarding:

a) participation in a joint OQR-Embassy meeting with BOI to present a united front on this topic, and

b) Raad's proposal for letters from Tony Blair and SE Mitchell or a joint Blair/Mitchell letter to Hapoalim and/or BOI on the importance of correspondent relations to Palestinian institution-building and the Middle East Peace Process.

CUNNINGHAM